

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 SS-15 STR-07 CEA-01 DODE-00 NSCE-00
SSO-00 USIE-00 INRE-00 ACDA-12 IO-13 L-03 NRC-05
OES-07 SOE-02 DOE-11 /135 W
-----012030 021921Z /72

O R 021845Z FEB 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 2736
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY SEOUL

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 01864

USEEC
USOEC

PASS HUFBAUER, TREASURY; PASS EXPORT-IMPORT BANK

E.O. 11652: XGDS-1
TAGS: EFIN, UK, ETRD, OECD
SUBJECT: H.M. TREASURY'S REACTION TO EX-IM'S OFFER TO
FINANCE KOREAN NUCLEAR POWER STATIONS.

SUMMARY: U.K. WILL MATCH EX-IM'S TERMS ON SOUTH KOREA
NUCLEAR POWER PROJECT. SPIRIT OF EXPORT CREDIT CONSENSUS
IS REGARDED AS HAVING BEEN VIOLATED. END SUMMARY

1. JOAN KELLEY, H.M. TREASURY OFFICIAL CONCERNED WITH
NEGOTIATING CONSENSUS ON OFFICIALLY SUPPORTED EXPORT
CREDIT CONTACTED THE EMBASSY TO EXPRESS EXTREME DIS-
PLEASURE OVER EX-IM BANK'S CONDUCT IN OFFERING TO FI-
NANCE NUCLEAR POWER PLANTS IN SOUTH KOREA.
2. KELLEY SAID THE GENERAL ELECTRIC COMPANY (GEC) OF THE
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U.K. HAS OFFERED TO SUPPLY A SMALL PART OF A LARGE NU-
CLEAR-POWERED PROJECT (BASICALLY TURBINES WORTH AROUND
50 MILLION POUNDS). GEC WAS INFORMED BY THE GOVERNMENT
OF SOUTH KOREA (GSK) THAT THE EX-IM BANK HAD OFFERED TO
EXTEND FINANCING AT 8-1/2 PERCENT FOR UP TO 15 YEARS IF
THE ENTIRE CONTRACT WENT TO U.S. SUPPLIER. GSK ASKED
GEC TO MEET THE 15 YEARS MATURITY AND TO MEET AN INTEREST

RATE WHICH WHEN AVERAGED WITH INTEREST RATES ON THE BAL-
ANCE OF THE PROJECT WOULD BE NO HIGHER THAN THE 8-1/2
PERCENT OFFERED BY EX-IM.

3. H.M.T. IS UNHAPPY THAT THE LENGTH OF THE CREDIT FOR
NUCLEAR POWER STATIONS HAS BEEN EXTENDED TO 15 YEARS FROM
THE 12 YEARS CHARACTERIZING RECENT PRACTICE. IT IS
ACKNOWLEDGED, HOWEVER, THAT THE MAY 1975 STAND-STILL ON
OFFICIAL FINANCING OF NUCLEAR POWER PLANTS PERMITS THE
LONGER MATURITY.

4. H.M.T. OFFICIALS ARE ANGRY OVER THE LACK OF WHAT THEY
FEEL IS PROPER NOTIFICATION. ECGD CLAIMS THAT AS OF THIS
MORNING EX-IM HAD NOT NOTIFIED THEM OF THE ALTERED TERMS.
THE ONLY INFORMATION WAS THAT TRANSMITTED FROM GSK. THIS
IS REGARDED AS EXTREMELY UNFORTUNATE IN LIGHT OF (A)
HARD U.S. INSISTENCE THAT THE OECD INFORMATION EXCHANGE
BE FULLY UTILIZED AND (B) OF THE DELICATE STATE OF THE
EC NEGOTIATIONS ON U.S. PROPOSALS FOR STRENGTHENING THE
CONSENSUS.

5. THE ECGD WILL MEET THE TERMS PROPOSED BY GSK. A 7
PERCENT INTEREST RATE IS CALCULATED TO SATISFY THE GSK
REQUIREMENT OF AN AVERAGE PARITY WITH THE EX-IM OFFER.
A 6-1/2 PERCENT PROPOSAL WAS REJECTED FOR THE TIME BEING.
THE DISCUSSION HAS BEEN RAISED TO THE MINISTER LEVEL, AND
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CHANCELLOR OF THE EXCHEQUER HEALEY IS AWARE OF THESE
DEVELOPMENTS.

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 01864

6. KELLEY'S PRIVATE VIEW IS THAT THE GSK WILL TRY FOR ADDITIONAL ROUNDS OF RATE SOFTENING AND THE U.K. IS PREPARED TO MEET THE COMPETITION.

7. KELLEY CONSIDERED THIS WAS AN UGLY EXAMPLE OF THE U.S. THROWING ITS WEIGHT ABOUT TO ACHIEVE WHAT MUST BE A SMALL ADVANTAGE (I.E., THE 50 MILLION POUND PORTION OF THE CONTRACT THAT THE U.K. WOULD LOSE). IT WAS NOT DIFFICULT TO SEE WHY SMALLER INDUSTRIAL COUNTRIES MIGHT FEEL PUT UPON IN THEIR DEALINGS WITH THE U.S.

8. SHE SAID THAT IT WAS NOT REASONABLE FOR THE U.S. TO ASK THE U.K. TO CARRY THE FLAG FOR THE U.S. CONSENSUS PROPOSALS INTO EC NEGOTIATIONS AND THEN TO TURN AROUND AND ACT IN A WAY THAT VIOLATED THE PRINCIPLES TO WHICH THE U.S. WAS DEMANDING ADHERENCE.

9. ACTION REQUESTED: IN LIGHT OF THE EMBASSY'S RECENT CONFIDENTIAL

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DEMARCHE (LONDON 1159) ASKING SUPPORT FOR THE CONSENSUS, WOULD APPRECIATE WASHINGTON'S REACTION TO KELLEY'S ENT IRRITATION AND IMPLICIT ALLEGATION THAT THE EXPORT-IMPORT BANK SOMEHOW IS OPERATING OUTSIDE THE SPIRIT OF THE OECD EXPORT CREDIT INFORMATION EXCHANGE SYSTEM.

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